Contents

	Preface		xiii
I	**INTRODUCTION**		1
1	**Introduction**		3
	1.1	Introduction	3
	1.2	Factor Content of Trade	5
	1.3	Interactions between Trade in Goods and Factor Mobility	5
	1.4	International Factor Mobility with External Economies of Scale	6
	1.5	International Factor Mobility with Monopolistic Competition	7
	1.6	International Factor Mobility with Oligopoly	8
	1.7	Multinational Corporations and Foreign Direct Investment	9
	1.8	International Labor Migration	10
	1.9	Other Features of This Book	11
	1.10	Structure of This Book	12
	1.11	Rising Significance of International Trade in Goods and Factor Movements	15
II	**PURE THEORY: THE NEOCLASSICAL MODELS**		21
2	**General Equilibrium with Constant Returns and Perfect Competition**		23
	2.1	The Two-Factor, Two-Sector Framework	23
	2.2	Unit Cost Function and Input-Ouput Coefficients	27
	2.3	The Stolper-Samuelson and the Rybczynski Theorems	30
	2.4	The Gross Domestic Product (GDP) Function	40
	2.5	The Ricardian Model	51
	2.6	The Specific-Factors Model	54
	2.7	Consumption Demand	59
	2.8	Direct and Indirect Trade Utility Functions	63
	2.9	Stability of Equilibrium	70
	2.10	The Offer Curve	76
	2.11	International Trade Equilibrium	77
		Appendix	81
3	**Comparative Advantage and Factor Content of Trade**		85
	3.1	Natural Trade	85
	3.2	The Law of Comparative Advantage	89
	3.3	The Factor Endowment Theory of Comparative Advantage	91
	3.4	Goods Trade and Factor Prices	95
	3.5	Are Goods Trade and Factor Mobility Substitutes?	99

	3.6	The General Law of Comparative Advantage	103
	3.7	Chain Version of Comparative Advantage	106
	3.8	Different Concepts of Factor Content of Trade	110
	3.9	Factor Content of Trade for a Single Economy	111
	3.10	Factor Content of Trade with Possibly Unequal Factor Prices	115
	3.11	Actual Factor Content of Trade with Equal Factor Prices	120
	3.12	The Leontief Paradox and Factor Content of Trade	126
	3.13	International Factor Movements and Factor Content of Trade	130
	3.14	Factor Accumulation and Dynamic Comparative Advantage	131
4	**International Goods Trade and Capital Movement**		139
	4.1	The Fundamental Trade Theorems in the Presence of Capital Movement	139
	4.2	Free Goods Trade and Capital Movement	144
	4.3	Two Graphical Apparatuses	148
	4.4	The Chipman Flat and Equilibrium with Diversification	155
	4.5	More Conditions for an Efficient Production with Diversification	160
	4.6	Stability of Equilibrium	166
	4.7	Are Goods Trade and Factor Mobility Substitutes?	170
	4.8	Patterns of Trade under International Capital Movement	173
	4.9	Comparative Advantage and Absolute Advantage	184
	4.10	International Capital Movement with Sector-Specific Capital	189
III	**PURE THEORY: VARIABLE RETURNS AND IMPERFECT COMPETITION**		195
5	**External Economies of Scale**		197
	5.1	External Effects in Production	198
	5.2	Output-Generated External Effects	201
	5.3	Prices, Output Levels, and Factor Endowments	212
	5.4	Stability of Production Equilibrium	220
	5.5	Autarkic Equilibrium	224
	5.6	Foreign Trade under National Economies of Scale	229
	5.7	Patterns of Trade	236
	5.8	Factor Prices under Free Trade	241
	5.9	International Factor Movement	244
	5.10	International Economies of Scale	247
		Appendix	250

6	**Monopolistic Competition and Intraindustry Trade in Differentiated Products**		253
	6.1	Preferences	254
	6.2	Production	263
	6.3	A Closed Economy	265
	6.4	Effects of Factor Accumulation	271
	6.5	Free Trade in Goods	274
	6.6	Volumes of Trade	283
	6.7	International Factor Movement with Differentiated Products	292
	6.8	Commodity Trade and Factor Movement	299
		Appendix	301
7	**Oligopoly and Intraindustry Trade in Identical Products**		305
	7.1	Cournot Competition with No Arbitrage: The Basic Model	306
	7.2	Free Entry and Exit	312
	7.3	Cournot Competition with Arbitrage: Zero Transport Cost	314
	7.4	Cournot Competition with Arbitrage and Positive Transport Cost	316
	7.5	Bertrand Competition with a Homogeneous Product	319
	7.6	Oligopoly and General Equilibrium	323
	7.7	Trade with Oligopoly: A General Equilibrium Approach	330
	7.8	Validity of the Fundamental Trade Theorems	335
	7.9	Factor Mobility and Commodity Trade	341
IV	**WELFARE ECONOMICS AND GAINS FROM TRADE**		345
8	**Core Theorems of the Welfare Economics of International Trade**		347
	8.1	The Pareto Approach to Welfare Comparison	347
	8.2	The Social-Welfare Approach to Welfare Comparison	350
	8.3	The Social-Utility Approach to Welfare Comparison	351
	8.4	The Lump-sum Compensation Approach to Welfare Comparison	354
	8.5	The Consumption-Taxation Compensation Approach to Welfare Comparison	361
	8.6	Comparing Different Approaches to Measuring Welfare	366
	8.7	The Core Theorems of Welfare Economics in International Trade	373
	8.8	Welfare of a Single Economy: The Case of Free Trade	374
	8.9	Welfare of a Single Economy: The Case of Restricted Trade	380
	8.10	Welfare of the World	384

9	**Gains from Trade for Economies with Imperfections**		389
	9.1	External Economies of Scale	389
	9.2	Monopolistic Competition with Differentiated Products	402
	9.3	Oligopoly with Identical Products	407
	9.4	Pareto-Inferior Trade When Markets Are Incomplete	415
	9.5	Gain from Compensated Trade with Incomplete Markets	421
	9.6	Pareto-Inferior Trade with Overlapping Generations	422
	9.7	Gain from Compensated Trade with Overlapping Generations	426
V	**TRADE POLICIES**		431
10	**Theory of Distortions and Optimal Policy Intervention**		433
	10.1	A Planner's Problem	434
	10.2	Optimality of a Competitive Equilibrium	437
	10.3	Types of Distortions	440
	10.4	Optimal Policy Intervention	442
	10.5	Theory of Second Best and Piecemeal Policy Recommendations	448
	10.6	Immiserizing Growth	453
	10.7	External Economies of Scale	459
	10.8	Monopolistic Competition and Differentiated Products	468
11	**Commercial Policies with Trade in Goods and Factor Mobility**		475
	11.1	Effects of Protection	475
	11.2	Optimal Protection	484
	11.3	Can Optimal Taxes Be Negative?	493
	11.4	An Alternative Approach to Analyzing Protection	494
	11.5	Capital Movement under Optimal Goods Trade	499
	11.6	Capital Movement for a Large Open Economy under Free Trade in Goods	503
	11.7	Capital Movement for a Small, Protected Economy	507
	11.8	Choosing between Capital Mobility and Labor Mobility: The Ramaswami Case	509
	11.9	Choosing between Capital Mobility and Labor Mobility: Duty-Free Zones	514
12	**Strategic Trade Policies**		519
	12.1	Optimal Policies in the Presence of Oligopolistic Industries	519
	12.2	Policies for the Home Market	523
	12.3	Policies for the Foreign Market	528

	12.4	Some Extensions	531
	12.5	Further Arguments against Export Subsidies	538
	12.6	Nonequivalence of Tariffs and Quotas	552
	12.7	Voluntary Export Restraints and Oligopolistic Firms	556
	12.8	Retaliation and Trade War with Competitive Industries	563
	12.9	Retaliation and Trade War with Oligopolistic Industries	568
	12.10	Alternatives to Trade Wars	573
	12.11	Strategic Choice between Capital Mobility and Labor Mobility	577
		Appendix	581
VI	**SPECIAL TOPICS**		583
13	**The Multinational Corporation**		585
	13.1	Some Basic Concepts	585
	13.2	Ownership Advantages	587
	13.3	Choosing between Export and Foreign Direct Investment?	593
	13.4	Tariff-Jumping FDI	599
	13.5	To Invest or to License: The Theory of Internalization	602
	13.6	Quid Pro Quo Direct Investment: The Political-Economy Context	608
	13.7	Multinational Corporation and Market Power	615
	13.8	Technology Transfer and Diffusion	618
14	**International Labor Migration**		625
	14.1	Features of International Labor Migration	625
	14.2	Emigration and the Welfare of Those Left Behind	628
	14.3	Emigration with Constant Factor Prices	632
	14.4	Government Policies in the Presence of Permanent Emigration	635
	14.5	External Effects	639
	14.6	Temporary Migration and Guest Workers	643
	14.7	The Problem of Brain Drain	651
	14.8	Learning by Doing and International Migration	653
	14.9	Education, Human Capital Formation, and International Migration	660
	14.10	Illegal Migration	662
	References		665
	Index		689